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October 5, 2017

City Council and City Recorder
City of Elgin
P.O. Box 128
Elgin, OR 97827

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Elgin, Oregon, as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Elgin's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in internal control to be material weaknesses:

1. Auditing standards require us to assess the internal control system of the entity. In addition, the standards clearly state that the auditor cannot be relied upon as part of the entity's control system. AU 265, *Communicating Internal Control Related Matters Identified in an Audit* defines the reporting requirements for internal control related matters. One aspect of this standard requires us to extend this assessment to controls over financial statement presentation. Proper controls over financial statement presentation require adequate knowledge and involvement to detect errors and omissions in the financial statements. The City's Administrator has the ability to prepare all Fund Financial Statements including the Budgetary Comparison Schedules. However, the City does rely on us as the auditor to assist them in drafting the Government-Wide Financial Statements including the reconciliations from the Fund Financial Statements to the Government-Wide Financial Statements. In addition, we verify the financial statements including note disclosures contain all of the elements required to comply with the modified cash basis of accounting. We do believe the City has staff with the ability to understand, review, and take responsibility for the financial statements required to comply with independence standards outlined under *AICPA 101-3*. However, our assistance in drafting the financial statements described above does produce a significant deficiency in the City's internal control system as defined by AU 265. We do not recommend any change in the preparation of the financial statements, but the Council should be aware of this control deficiency and stress the importance of thorough review of the financial statements prior to approval of the audit.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the City of Elgin's internal control to be significant deficiencies:

1. Solid Waste staff are not obtaining signatures on all transactions to support cash being turned over to the City, which increases the risk of fraud for the City and makes it difficult for the Council to make financial decisions and properly monitor the budget and cash position of the City. The City should closely review controls over revenue collections for Solid Waste to be assured they are protected against misappropriations. The City purchased and implemented the use of new scales at the Solid Waste site in May of 2017. The new system allows the City to properly monitor and reconcile the revenue receipt in this area.

One certain immaterial matter was noted during the audit. Due to materiality and other considerations, comments may be significant deficiencies to one entity and not another. The following comment is considered either immaterial or inconsequential, but will be reviewed again in the audit of fiscal year ending June 30, 2018.

1. The City has insufficient controls over the credit card and fuel cards. We noted various transactions that were missing invoices and/or proper approval. Subsequent to the fiscal year end, the City has implemented new credit card and fuel card policies we believe will assist in this finding.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management, the City Council, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Lewis, Poe, Moeller, Gunderson & Roberts, LLC

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